

SOVIET ECONOMY

1. Soviet economic development is dominated by obsession with rapid growth of heavy industry. Large part of reason for this is desire for strong military posture.

a. For example, we estimate that 35% of its gross national product, equivalent to approximately 55 billions of dollars, goes directly into the military machine or into capital investment, which is base for expansion of future military capabilities.

b. In the U.S.A. 27% of our gross national product is for military or investment purposes.

2. Hence before discussing the economic, industrial and scientific position of the Soviet Union, I propose to discuss what we believe its military posture to be.

3. The Soviet Bloc implacably believes in eventual triumph of international communism. Expects and hopes to achieve this end without a global war but feels it must be prepared for war if other means fail or if attacked.

4. Soviet position due to their fear that global war, while it might destroy the capitalist system and eventually lead to a communist world, might also bring about their own destruction and quite different group of men would rise from ashes of a global struggle.

5. Therefore, estimate the Soviets will probably try to avoid global war for the immediate future for this and other reasons.

- a. At the present time and pending the development of an effective long-range bomber force, or long-range guided missiles, they are not assured of being able to destroy the American industrial base and our retaliatory power and hence win out in the long run.
- b. At the present time they are somewhat behind us in the nuclear race and probably do not have an adequate nuclear stockpile for global war purposes, although they do probably have a stockpile which,

if surprise were achieved, could effect devastating damage.

- c. They seem to feel a general military inferiority to the United States except in ground forces and possibly in guided missile development.
- d. The Soviet consider themselves as appreciably encircled by American overseas bases and that we have, unless they can neutralize these bases, a more effective jumping off point to attack them than they have to attack us.

6. I conclude that over the next decade they will continue to devote of their gross national product every ounce of strength which they think their people will stand to heavy industrial development--the basis for military strength in even more distant decades.

- a. They will give lip service to the increase of consumer goods, although not so recklessly as during the Malenkov regime, but it is clear from

the new Sixth Five-Year Plan that the real
priority of heavy industry will remain unchanged.

7. We will, therefore, probably have a situation during
the next decade or a good part of it where the Soviet Union
will continue to devote as they do today about 35% of their
gross national product to military ends or to capital investment.

a. This means emphasis on heavy industry, atomic
weapons, aviation, guided missiles, and related
fields of electronics, etc.

b. Where do they stand in this situation today?

Have here chart showing their industrial
production as compared in billions of dollars
to the United States. (See chart)

8. During quarter of century since Stalin consolidated
power position in 1928, USSR has risen from relatively un-
developed country to second largest economy in the world.

a. This growth particularly remarkable considering
destructive effects World War II.

b. It has involved transfer of millions of workers from agriculture to urban occupations paralleled by prodigious efforts to educate them in modern skills and technology.

c. The Soviets have diverted an unusually large portion of total national product to investment-- twice that of U.S.A. The result has been:

(1) While capital goods output was raised ten-fold, agricultural production failed to match growth in population.

(2) Planned goals for heavy industry have usually been reached or surpassed while modest goals for consumer goods have been chronically unfulfilled.

9. As indicated above, total output of USSR now is one - third of U.S.A. but about 1.75 that of U.K. However, USSR production of capital goods far larger proportion of total national product than for U.S.A.

a. For example, USSR production of coal almost equals that of U.S.A. while the number of machine tools produced exceeds slightly that of U.S.A. Its output of automobiles less than 5% of ours.

10. Sixth five-year plan 1956-1960 follows traditional Soviet line of heavy industrial output which will bring Soviet industrial production in 1960 to nearly 2/3 of U.S.A. as against 1/3 in 1950. Electronic output--largely a military item particularly for guided missiles--will be tripled or quadrupled. In field of special heat resistant alloys where Soviets have done much fundamental research a six-fold increase in production contemplated. (See attached sheet for comparison of present capital goods production in certain key fields.)

11. I have read with interest your publication Resources of the World. As applied to the Soviet Union, the problem of food availability appears to be more difficult of solution than those of raw material, energy resource, and technical manpower scarcities.

- a. Both historical review and current analysis of Soviet economic policy disclose greater success and determination in coping with the latter three problems than with that of adequacy and variety of diet.

12. The Soviets have inaugurated their "new lands" program to increase grain supplies but a big question remains as to the long run successes of this program.

- a. The difficulties encountered this year in the new lands tend to point up the fact that Soviet land resources are not unlimited.
- b. Increases in production through land expansion alone cannot be expected to solve the problem of feeding an ever-increasing population.

13. If the Soviets wish to fulfill their promises of a more varied and higher quality diet for their people, a heavy investment program providing for greatly increased production of fertilizer and special purpose machinery for meat, dairy

and vegetable output will be required.

SCIENCE AND TECHNOLOGY

14. Kaganovich in a recent public speech said:

Capital Goods Production, 1955

<u>Commodity</u>	<u>US</u>	<u>USSR</u>	<u>US as multiple of USSR</u>
Coal (million metric tons)	443	390	1.1
Crude Oil & Natural Gas Liquids (million metric tons)	366	70	5.2
Electric Power (billion Kwh)	623	170	3.7
Steel (million metric tons)	106	45	2.4
Primary Aluminum (million metric tons)	1.4	0.5	2.8
Synthetic Rubber (million metric tons)	0.9	0.23	3.9
Cement (million metric tons)	50	22	2.3
Mineral Fertilizers (million metric tons)	25	9.6	2.6

Consumer Goods Production, 1955

Cotton Fabrics (billion linear meters)	9.0	5.9	1.5
Automobiles and Trucks (million units)	9.2	0.45	20.4
Washing Machines (million units)	4.4	.087	50.6
Radio and TV Sets (million units)	20.3	4.0	5.1
Meat (million metric tons)	12.2	4.5	2.7